

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LINCOLN COUNTY HOSPITAL
MARCH 31, 2017 AND 2016

CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	5
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	7
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTARY INFORMATION	
PATIENT SERVICE REVENUE	25
OPERATING EXPENSES BY FUNCTIONAL DIVISION	26

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended March 31, 2017 and 2016

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2017 and 2016. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of \$652,352 in 2017, \$419,113 in 2016, and \$143,406 in 2015. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position decreased by \$384,476 or 22.9 percent in 2017 and decreased by \$23,521 or 1.4 percent in 2016.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, and resources held by or for the benefit of the Hospital.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2017 and 2016

Assets, deferred outflows, liabilities, and net position

Table 1 below summarizes the Hospital's assets, deferred outflows, liabilities, and net position for the latest three fiscal years.

Table 1: Assets, Deferred Outflows, Liabilities, and Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets	\$ 2,469,580	\$ 2,518,427	\$ 2,107,833
Capital assets, net	4,325,929	4,677,184	5,326,402
Other noncurrent assets	<u>485,883</u>	<u>677,454</u>	<u>885,246</u>
Total assets	<u>7,281,392</u>	<u>7,873,065</u>	<u>8,319,481</u>
Deferred outflows of resources on advance refunding	<u>286,378</u>	<u>-</u>	<u>-</u>
Liabilities			
Current liabilities	929,392	852,633	968,134
Noncurrent liabilities	<u>5,345,994</u>	<u>5,343,572</u>	<u>5,650,966</u>
Total liabilities	<u>6,275,386</u>	<u>6,196,205</u>	<u>6,619,100</u>
Total net position	<u>\$ 1,292,384</u>	<u>\$ 1,676,860</u>	<u>\$ 1,700,381</u>

Our ratio of current assets to current liabilities decreased to 2.7 in 2017, from a ratio of 3.0 in 2016, and increased from 2.2 in 2015. Current assets are impacted by the payment position with Medicare, timing of withdrawals from board funds, change in net accounts receivable, and the change in current liabilities. The Hospital's current liabilities increased by \$76,759 in 2017 as compared to 2016 due primarily to the \$74,902 increase in the accounts payable at year-end.

The Hospital's capital acquisitions were \$330,665, \$50,501, and \$39,187 during 2017, 2016, and 2015. The significant additions in 2017 were primarily related to the remodeling in the radiology room and purchase of the X-Ray Radiographic Fluoroscopic Machine which was partially funded by tax credits. The remaining change in capital assets, net, results from the normal annual depreciation provisions of \$681,920, \$699,719, and \$728,371 during 2017, 2016, and 2015.

Other noncurrent assets consist of Board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, funds set aside for future replacement of capital assets, funds set aside for payment of future health claims expense, and donor restricted funds to purchase capital assets. These balances will change as tax appropriations and contributions are received. The board designated funds increased by \$42,103 in 2017 and decreased by \$491,151 in 2016. The large decrease in 2016 is due to the board transferring most of its operating funds to the Hospital. These funds are important in operating the Hospital on a day-to-day basis and to manage through periods of lower cash flows. The Hospital's receivable from the Medicare and Medicaid programs decreased to \$55,000 in 2017 as compared to \$800,000 in 2016. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2017 and 2016

Operating results and changes in net position

In 2017, the Hospital's net position decreased by \$384,476 or 22.9 percent. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Net patient service revenue	\$ 6,550,270	\$ 6,669,806	\$ 6,292,145
Electronic health record incentive revenue	38,016	57,024	95,041
Other operating revenue	<u>946,923</u>	<u>825,956</u>	<u>916,108</u>
Total operating revenues	<u>7,535,209</u>	<u>7,552,786</u>	<u>7,303,294</u>
Operating expenses			
Salaries and benefits	4,188,337	4,132,762	3,798,925
Supplies and other	3,317,304	3,139,418	2,919,404
Depreciation and amortization	<u>681,920</u>	<u>699,719</u>	<u>728,371</u>
Total operating expenses	<u>8,187,561</u>	<u>7,971,899</u>	<u>7,446,700</u>
Operating loss	(652,352)	(419,113)	(143,406)
Nonoperating revenues net of expenses and contributions for capital	<u>267,876</u>	<u>395,592</u>	<u>95,678</u>
Change in net position	<u>\$ (384,476)</u>	<u>\$ (23,521)</u>	<u>\$ (47,728)</u>

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2017, the Hospital's operating income (loss) declined by \$233,239 in comparison to 2016, while in 2016 the operating income (loss) declined by \$258,353 in comparison to 2015. The Hospital's net patient service revenue in 2017 decreased by 1.8 percent and in 2016 increased by 6.0 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts and, to a greater extent, the change in Medicare reimbursable costs. The increase in net revenues was accompanied with a 3.1 percent increase in operating expenses during 2017, and a 7.1 percent increase in 2016.

The Hospital received 78 percent in 2017 and 77 percent in 2016 of its net patient revenue from the Medicare program with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs and has helped stabilize the Hospital's net patient service revenues. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2017 and 2016

by the Medicare program. The Hospital's net revenues from Medicare were reduced by approximately \$90,000 in 2017 and 2016, respectively, due to the sequestration payment cuts implemented by Medicare which became effective on April 1, 2013.

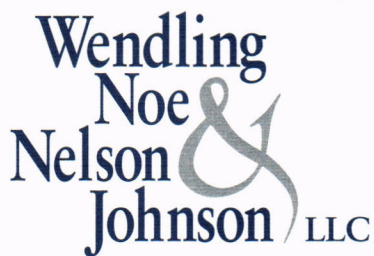
The Hospital has recognized electronic health record incentive revenues which relate to the Hospital certifying and meeting the stages of electronic health record meaningful use. The Hospital recognized \$38,016 in 2017, \$57,024 in 2016, and \$95,041 in 2015 from the Medicaid program. These revenues will not continue as the incentive program time period has expired.

Employee salaries, wages, and benefits increased by \$87,089 or 2.1 percent in 2017, and increased by \$333,837 or 8.8 percent in 2016, as compared with the previous year. Salaries, wages, and employee benefits represent 64.4 percent, 62.0 percent, and 60.4 percent of total net patient service revenue in 2017, 2016, and 2015. The increase in 2017 resulted primarily from the increase in health insurance expense. Employee benefits as a percentage of salary and wage expense was 31.3 percent in 2017, 28.8 percent in 2016, and 28.1 percent in 2015.

Supplies and other expenses increased by \$177,886 in 2017, by \$220,014 in 2016, and by \$392,976 in 2015. Items affecting the 2017 to 2016 comparison include an increase in contracted provider coverage in the ER and contracted nursing services. Items affecting the 2016 to 2015 comparison included an increase in contracted services for provider coverage in the ER and clinic.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high quality health care services to our patients.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.



Certified Public Accountants
and Management Consultants

Heather R. Eichen, CPA
Brian J. Florea, CPA
John R. Helms, CPA
Eric L. Otting, CPA

Darrell D. Loyd, CPA
Jere Noe, CPA
John E. Wendling, CPA
Barry W. Boyles, CPA
Adam C. Crouch, CPA
Ashley R. Davis, CPA
Brian W. Nyp, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Lincoln County Hospital

We have audited the accompanying financial statements of net position and the related statements of revenues, expenses, and changes in net position and statements of cash flows of Lincoln County Hospital, and of its discretely presented component unit, as of and for the years ended March 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lincoln County Hospital's basic financial statements as a whole. The supplementary information presented on pages 25 and 26 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Wendling Noel Nelson & Johnson 22C
Topeka, Kansas
August 4, 2017

FINANCIAL STATEMENTS

LINCOLN COUNTY HOSPITAL
STATEMENTS OF NET POSITION
March 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash	\$ 952,807	\$ 91,380	\$ 472,754	\$ 70,550
Certificates of deposit		5,758		5,746
Assets limited as to use	137,150		157,591	
Accounts receivable, net of allowance for uncollectible accounts of \$120,438 in 2017 and \$148,788 in 2016	1,017,581		776,249	
Electronic health record incentive receivable	38,016		57,024	
Other receivables	69,758		41,839	
Inventories	155,547		140,732	
Prepaid expenses and other	43,721		72,238	
Estimated third-party payor settlements	55,000		800,000	
Total current assets	<u>2,469,580</u>	<u>97,138</u>	<u>2,518,427</u>	<u>76,296</u>
ASSETS LIMITED AS TO USE				
By Board of Trustees				
For operations	3,077		1,073	
For debt service reserve	315,515		277,869	
For capital assets	52,510		52,222	
For health claims	100,589		98,424	
By donors for capital assets			217,160	
By Public Building Commission	117,150		122,591	
	588,841	-	769,339	-
Less amounts required to meet current obligations	137,150		157,591	
	<u>451,691</u>	<u>-</u>	<u>611,748</u>	<u>-</u>
CAPITAL ASSETS, net	<u>4,325,929</u>	<u>-</u>	<u>4,677,184</u>	<u>-</u>
OTHER ASSETS	<u>34,192</u>	<u>-</u>	<u>65,706</u>	<u>-</u>
Total assets	<u>7,281,392</u>	<u>97,138</u>	<u>7,873,065</u>	<u>76,296</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on advance refunding	286,378	-	-	-
Total assets and deferred outflows of resources	<u>\$ 7,567,770</u>	<u>\$ 97,138</u>	<u>\$ 7,873,065</u>	<u>\$ 76,296</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 316,522	\$ -	\$ 307,395	\$ -
Accounts payable	114,555		39,653	
Salaries payable	193,221		190,963	
Payroll taxes payable	97,686		96,399	
Vacation benefits payable	132,947		121,750	
Other accrued expenses	60,994		73,283	
Interest payable	13,467		23,190	
Total current liabilities	929,392	-	852,633	-
LONG-TERM OBLIGATIONS, less current maturities	<u>5,345,994</u>		<u>5,343,572</u>	
Total liabilities	<u>6,275,386</u>	-	<u>6,196,205</u>	-
NET POSITION				
Invested in capital assets net of related debt	(1,336,587)		(973,782)	
Restricted				
For debt service	117,150		122,591	
For capital assets			217,160	
For specific operating activities		-		64,857
Unrestricted	<u>2,511,821</u>	<u>97,138</u>	<u>2,310,891</u>	<u>11,439</u>
Total net position	<u>1,292,384</u>	<u>97,138</u>	<u>1,676,860</u>	<u>76,296</u>
Total liabilities and net position	<u>\$ 7,567,770</u>	<u>\$ 97,138</u>	<u>\$ 7,873,065</u>	<u>\$ 76,296</u>

LINCOLN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended March 31,

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 6,550,270	\$ -	\$ 6,669,806	\$ -
Electronic health records incentive revenue	38,016		57,024	
Other	<u>946,923</u>	<u>82,322</u>	<u>825,956</u>	<u>21,629</u>
Total operating revenues	<u>7,535,209</u>	<u>82,322</u>	<u>7,552,786</u>	<u>21,629</u>
Operating expenses				
Salaries and wages	3,214,414		3,208,388	
Employee benefits	973,923		924,374	
Supplies and other	3,317,304	61,997	3,139,418	2,643
Depreciation	<u>681,920</u>		<u>699,719</u>	
Total operating expenses	<u>8,187,561</u>	<u>61,997</u>	<u>7,971,899</u>	<u>2,643</u>
Operating income (loss)	<u>(652,352)</u>	<u>20,325</u>	<u>(419,113)</u>	<u>18,986</u>
Nonoperating revenues (expenses)				
Tax appropriations	524,981		438,039	
Investment income	30,456	517	36,289	257
Interest expense	(349,792)		(295,523)	
Noncapital grants and contributions	<u>62,231</u>			
Total nonoperating revenues	<u>267,876</u>	<u>517</u>	<u>178,805</u>	<u>257</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	<u>(384,476)</u>	<u>20,842</u>	<u>(240,308)</u>	<u>19,243</u>
Capital grants and contributions			<u>216,787</u>	
Change in net position	<u>(384,476)</u>	<u>20,842</u>	<u>(23,521)</u>	<u>19,243</u>
Net position beginning of year	<u>1,676,860</u>	<u>76,296</u>	<u>1,700,381</u>	<u>57,053</u>
Net position end of year	<u>\$ 1,292,384</u>	<u>\$ 97,138</u>	<u>\$ 1,676,860</u>	<u>\$ 76,296</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended March 31,

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 7,053,938	\$ -	\$ 5,973,707	\$ -
Payments to or on behalf of employees	(4,185,884)		(4,227,952)	
Payments for supplies and services	(3,228,700)	(61,997)	(3,146,237)	(2,643)
Other receipts and payments	<u>1,007,542</u>	<u>82,322</u>	<u>1,014,612</u>	<u>21,629</u>
Net cash provided (used) by operating activities	<u>646,896</u>	<u>20,325</u>	<u>(385,870)</u>	<u>18,986</u>
Cash flows from noncapital financing activities				
Tax appropriations	524,981		438,039	
Noncapital grants and contributions	<u>62,231</u>			
Net cash provided by noncapital activities	<u>587,212</u>	<u>-</u>	<u>438,039</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(330,665)		(50,501)	
Capital grants and contributions			216,787	
Proceeds from long-term debt	5,611,064			
Principal paid on long-term obligations	(5,576,572)		(295,112)	
Interest paid on long-term obligations	(246,323)		(297,100)	
Payment of bond financing costs and deferred outflows on advance refunding of bonds	<u>(422,513)</u>			
Net cash used by capital and related financing activities	<u>(965,009)</u>	<u>-</u>	<u>(425,926)</u>	<u>-</u>
Cash flows from investing activities				
Changes in				
Internally designated by Board of Trustees	(42,103)		491,151	
By donors for capital asset acquisitions	217,160		(217,160)	
Certificates of deposit		(12)		(12)
Capital contribution to equity investee			(25,000)	
Assets held by Public Building Commission	5,441		1,564	
Investment income received	<u>30,456</u>	<u>517</u>	<u>36,289</u>	<u>257</u>
Net cash provided by investing activities	<u>210,954</u>	<u>505</u>	<u>286,844</u>	<u>245</u>
Change in cash and cash equivalents	480,053	20,830	(86,913)	19,231
Cash and cash equivalents at beginning of year	<u>472,754</u>	<u>70,550</u>	<u>559,667</u>	<u>51,319</u>
Cash and cash equivalents at end of year	<u>\$ 952,807</u>	<u>\$ 91,380</u>	<u>\$ 472,754</u>	<u>\$ 70,550</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended March 31,

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (652,352)	\$ 20,325	\$ (419,113)	\$ 18,986
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	681,920		699,719	
Provision for bad debts	204,310		279,720	
Loss on equity investment	31,514		17,354	
Changes in				
Accounts receivable	(445,642)		(461,009)	
Estimated third-party payor settlements	745,000		(514,810)	
Other receivables	(8,911)		131,632	
Inventories	(14,815)		180	
Prepaid expenses and other	28,517		6,663	
Accounts payable and accrued expenses	<u>77,355</u>		<u>(126,206)</u>	
Net cash provided (used) by operating activities	<u>\$ 646,896</u>	<u>\$ 20,325</u>	<u>\$ (385,870)</u>	<u>\$ 18,986</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
March 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a critical access hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. Component unit

The financial statements include the discrete presentation of financial data of Lincoln County Hospital and Health Care Foundation (the Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation, which is a not-for-profit corporation, was established in 2005 for the purpose of providing financial assistance to the Hospital. The Foundation is administered by a self-perpetuating Board of Directors. One of the six members of the Foundation's Board is also a member of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in assets limited as to use or certificates of deposit.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the balance of private pay receivables.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Inventories

Inventories are stated at cost as determined using the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, for debt service reserve, and for payment of partially self-insured health claims, over which the Board retains control and may at its discretion subsequently use for other purposes; donor restricted funds to be used for capital asset acquisitions; and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties.

10. Other assets

The Hospital has a 4.1 percent interest in Community Holdings LLC which provides stop-loss insurance coverage to the Hospital's partially self-funded health insurance plan (see Note M). The activity for this entity is reported on the equity method and the Hospital recognized a loss of \$31,514 in 2017 and \$17,354 in 2016.

11. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

12. Vacation benefits payable

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

13. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary from the estimate.

14. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

15. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

16. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

17. Cost of borrowing

Interest costs including amortization of bond premiums incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are expensed as incurred.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

18. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

19. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

20. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

21. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

22. Reclassifications and restatements

Certain reclassifications and restatements were made to the 2016 financial statements to conform with the 2017 presentation. These restatements had no impact on previously reported net position or the change in net position.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE B - NET PATIENT SERVICE REVENUE - Continued

services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2016.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue		
Inpatient	\$ 2,304,005	\$ 2,282,015
Outpatient	3,842,295	4,326,171
Physician services	248,815	236,995
Rural health clinic	<u>621,875</u>	<u>630,287</u>
	7,016,990	7,475,468
Third-party contractual adjustments	(232,043)	(471,886)
Charity care	(20,083)	(27,059)
Other discounts and allowances	(10,284)	(26,997)
Provision for bad debts	<u>(204,310)</u>	<u>(279,720)</u>
Net patient service revenue	<u>\$ 6,550,270</u>	<u>\$ 6,669,806</u>

Revenue from the Medicare program accounted for approximately 78 percent and 77 percent of the Hospital's net patient service revenue during 2017 and 2016, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2017 and 2016 was \$20,083 and \$27,059, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was \$22,196 and \$26,616 for 2017 and 2016, respectively.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE C - ELECTRONIC HEALTH RECORDS INCENTIVE REVENUE

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$38,016 and \$57,024 of revenue for EHR incentive payments from the Medicaid program in 2017 and 2016, respectively. These amounts are included in operating revenues on the statement of operations.

NOTE D - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's allowance for uncollectible accounts on amounts due from patients was 70 percent and 79 percent of self-pay accounts receivable as of March 31, 2017 and 2016, respectively. The Hospital's net bad debt write-offs were \$232,661 and \$250,330 for the years ended March 31, 2017 and 2016, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2017 or 2016. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE E - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

At March 31, 2017, the carrying amount of the Hospital's bank deposits were \$1,424,218 and the bank balances were \$1,512,282. Of the bank balances, \$350,589 was covered by federal depository insurance and \$1,161,693 was collateralized with securities held by a third-party bank.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE F - ASSETS LIMITED AS TO USE

The composition of assets limited as to use which are invested in cash, is as follows:

	<u>2017</u>	<u>2016</u>
Board of Trustee funds	\$ 471,691	\$ 429,588
By donors for capital assets		217,160
Under bond agreements	<u>117,150</u>	<u>122,591</u>
Total assets limited as to use	<u>\$ 588,841</u>	<u>\$ 769,339</u>

Assets limited as to use by bond agreements are held by the Lincoln County Public Building Commission for the repayment of principal and interest on the bonds.

NOTE G - CAPITAL ASSETS

	Balance March 31, <u>2016</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance March 31, <u>2017</u>
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,023,310	148,431		2,171,741
Fixed equipment	5,410,022			5,410,022
Movable equipment	<u>2,799,724</u>	<u>174,994</u>		<u>2,974,718</u>
	<u>10,440,070</u>	<u>323,425</u>	<u>-</u>	<u>10,763,495</u>
Less accumulated depreciation and amortization				
Land improvements	81,416	12,458		93,874
Buildings	1,274,967	68,315		1,343,282
Fixed equipment	2,216,624	297,058		2,513,682
Movable equipment	<u>2,189,879</u>	<u>304,088</u>		<u>2,493,967</u>
	<u>5,762,886</u>	<u>681,919</u>	<u>-</u>	<u>6,444,805</u>
Projects in progress	<u>-</u>	<u>7,239</u>	<u>-</u>	<u>7,239</u>
Capital assets, net	<u>\$ 4,677,184</u>	<u>\$ (351,255)</u>	<u>\$ -</u>	<u>\$ 4,325,929</u>

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE G - CAPITAL ASSETS - Continued

	Balance March 31, <u>2015</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance March 31, <u>2016</u>
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,020,511	2,799		2,023,310
Fixed equipment	5,410,022			5,410,022
Movable equipment	<u>2,751,022</u>	<u>48,702</u>		<u>2,799,724</u>
	<u>10,388,569</u>	<u>51,501</u>	<u>-</u>	<u>10,440,070</u>
Less accumulated depreciation and amortization				
Land improvements	68,958	12,458		81,416
Buildings	1,200,107	74,860		1,274,967
Fixed equipment	1,918,474	298,150		2,216,624
Movable equipment	<u>1,875,628</u>	<u>314,251</u>		<u>2,189,879</u>
	<u>5,063,167</u>	<u>699,719</u>	<u>-</u>	<u>5,762,886</u>
Projects in progress	<u>1,000</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 5,326,402</u>	<u>\$ (649,218)</u>	<u>\$ -</u>	<u>\$ 4,677,184</u>

As of March 31, 2017, the Hospital had an outstanding commitment to purchase radiology equipment and upgrade hardware and software in the clinic for a total cost of \$489,528.

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital lease obligation with the Lincoln County, Kansas Public Building Commission; interest rate of 4.375% to 5.50%; issued on December 15, 2008, in the original amount of \$6,300,000, partially defeased in 2017	\$ 190,000	\$ 5,515,000
Capital lease obligation with the Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds Series 2016; interest rate of 2.00% to 3.00%; issued on October 6, 2016; in the original amount of \$5,330,000; due serially through March 1, 2035	5,205,000	

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE H - LONG-TERM OBLIGATIONS - Continued

	<u>2017</u>	<u>2016</u>
Capital lease obligation; imputed interest rate of 5.50%; payable in monthly installments of \$10,850 through March 2017; collateralized by leased equipment with no amortized cost at March 31, 2017	\$ -	\$ 126,572
	5,395,000	5,641,572
Add net unamortized premium of bonds	267,516	9,395
Less current maturities of long-term debt	<u>(316,522)</u>	<u>(307,395)</u>
Long-term debt, net of current maturities	<u>\$ 5,345,994</u>	<u>\$ 5,343,572</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Capital lease with PBC</u>	<u>Total long-term obligations</u>
Outstanding at March 31, 2015	\$ 246,684	\$ 5,690,000	\$ 5,936,684
Principal payments	<u>(120,112)</u>	<u>(175,000)</u>	<u>(295,112)</u>
Outstanding at March 31, 2016	126,572	5,515,000	5,641,572
Issuance of long term debt	5,330,000	5,330,000	5,330,000
Principal payments	<u>(126,572)</u>	<u>(5,450,000)</u>	<u>(5,576,572)</u>
Outstanding at March 31, 2017	<u>\$ -</u>	<u>\$ 5,395,000</u>	<u>\$ 5,395,000</u>

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of \$6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds were used, together with other available funds of the Hospital, for the purpose of renovating the Hospital building (the Project). In 2016, \$5,145,000 of these bonds were legally defeased when a portion of the proceeds from the 2016 bond issue was placed into a separate trust for the benefit of the 2016 bond holders.

On October 6, 2016, the Lincoln County, Kansas, PBC issued \$5,330,000 in Refunding Revenue Bonds, Series 2016, on behalf of the Hospital. The proceeds of these bonds were used to advance refund \$5,145,000 of the Series 2008 bonds. As a part of this transaction, the Hospital recognized a deferred refunding loss of \$300,882 which is reported as a deferred outflow. The refunding loss will be systematically amortized through March 1, 2035. The net present value of the savings is expected to be \$982,745 over the term of the life of the bonds. The proceeds from this issue were placed in escrow and will be used to (1) on March 1, 2018, advance refund Series 2008 bonds scheduled to mature, inclusive, in the aggregate principal amount of \$5,145,000, and (2) pay certain costs related to the issuance of the 2016 bonds. As of March 31, 2017, \$190,000 of the Series 2008 bonds remained outstanding.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE H - LONG-TERM OBLIGATIONS - Continued

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC, the County, and the Hospital entered into a lease agreement in which the PBC leased the Project to the County and the Hospital for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

Scheduled annual debt service requirements on the lease with the Public Building Commission are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 290,000	\$ 161,600	\$ 451,600
2019	305,000	150,100	455,100
2020	310,000	144,000	454,000
2021	325,000	134,700	459,700
2022	250,000	124,950	374,950
2023-2027	1,320,000	510,300	1,830,300
2028-2032	1,550,000	298,800	1,848,800
2033-2035	<u>1,045,000</u>	<u>63,450</u>	<u>1,108,450</u>
	<u>\$ 5,395,000</u>	<u>\$ 1,587,900</u>	<u>\$ 6,982,900</u>

Total interest costs are summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest incurred	\$ 236,601	\$ 296,372
Amortization of bond premium	(13,548)	(849)
Amortization of deferred outflows on advance refunding	14,503	
Bond issuance costs incurred	<u>112,236</u>	
Interest expense	<u>\$ 349,792</u>	<u>\$ 295,523</u>

On February 24, 2017, the Hospital entered into a lease agreement for a CT Scan to replace an expiring lease. The equipment was installed in April 2017 and the lease was for a period of 60 months at a monthly lease amount of \$5,054. Total lease commitment is \$303,240.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE I - PENSION PLAN

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2017 and 2016, was \$2,593,436 and \$2,547,752, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first \$7,800 of covered compensation plus 5 percent of the covered compensation exceeding \$7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first \$7,800 of covered compensation, plus 9 percent of the covered compensation exceeding \$7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2017 and 2016, was \$204,031 and \$205,120, respectively.

NOTE J - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	46.8%	42.7%
Medicaid	3.0	5.8
Blue Cross	11.1	18.1
Commercial insurance	20.1	11.3
Self-pay	<u>19.0</u>	<u>22.1</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE K - RISK MANAGEMENT

For the years ended March 31, 2017 and 2016, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed on April 1, 2017, for the policy period from April 1, 2017 to April 1, 2018.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE K - RISK MANAGEMENT - Continued

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE L - COMMITMENTS AND CONTINGENCIES

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note K). There have been claims asserted. Management believes that any claims asserted for incidents occurring through March 31, 2017, would be settled within the limits of insurance coverage.

NOTE M - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital partially self-insures health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$30,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The Hospital's estimated liability for reported and unreported claims incurred as of March 31, 2017 and 2016, was \$20,000 and \$35,000, respectively. The Hospital recorded a receivable of \$13,987 related to estimated amounts recoverable from reinsurance at March 31, 2016.

The following is a summary of activity under this arrangement:

	<u>2017</u>	<u>2016</u>
Estimated employee health insurance claims payable at the beginning of the year	\$ 35,000	\$ 182,611
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	443,331	380,401
Employee contributions	40,545	31,902
Payments made for claims and reinsurance, net of reinsurance recoveries	<u>(498,876)</u>	<u>(559,914)</u>
Estimated employee health insurance claims payable at the end of the year	<u>\$ 20,000</u>	<u>\$ 35,000</u>

The Hospital has a 4.1 percent interest in Community Holdings LLC, which provides individual stop-loss coverage for incurred claims expense in excess of \$30,000 for each covered individual. The Hospital paid Community Holdings LLC approximately \$236,000 and \$207,000 in 2017 and 2016, respectively, for premiums under its partially self-insured health insurance plan.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2017 and 2016

NOTE N - RELATED PARTY TRANSACTIONS

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received \$524,981 and \$438,039 in tax appropriations from Lincoln County in 2017 and 2016, respectively. The Hospital also received approximately \$59,500 in contributions from the Foundation during 2017.

A member of the Hospital's Board of Trustees provides pharmacy services to the Hospital. For each of the years ended March 31, 2017 and 2016, the Hospital expensed approximately \$35,000 for these services.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent certified public accountants' report, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LINCOLN COUNTY HOSPITAL
PATIENT SERVICE REVENUE
Year ended March 31,

	2017			2016
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine services				
Adults and pediatrics	<u>\$1,041,438</u>	<u>\$ -</u>	<u>\$1,041,438</u>	<u>\$ 973,707</u>
Ancillary services				
Operating room	5,559		5,559	10,538
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	41,961	438,548	480,509	518,108
CT scan and MRI	78,514	786,472	864,986	816,420
Laboratory and blood	203,769	1,160,816	1,364,585	1,363,739
Physical therapy	102,720	426,126	528,846	608,140
Occupational therapy	89,894	131,673	221,567	261,094
Speech therapy	14,259	20,748	35,007	39,675
Electrocardiology	8,820	71,295	80,115	71,663
Medical supplies	251,716	81,578	333,294	454,708
Pharmacy	433,456	271,370	704,826	794,798
Sleep lab		38,150	38,150	72,802
Emergency room	468	220,670	221,138	223,053
Treatment room	23,461	149,241	172,702	358,203
Observation care	7,970	45,608	53,578	41,538
Clinic and physician		870,690	870,690	867,282
	<u>1,262,567</u>	<u>4,712,985</u>	<u>5,975,552</u>	<u>6,501,761</u>
	<u>\$2,304,005</u>	<u>\$4,712,985</u>	<u>7,016,990</u>	<u>7,475,468</u>
Less				
Contractual adjustments - third-party payors			(232,043)	(471,886)
Charity care			(20,083)	(27,059)
Administrative discounts			(10,284)	(26,997)
Provision for bad debts			<u>(204,310)</u>	<u>(279,720)</u>
Net patient service revenue			<u>\$6,550,270</u>	<u>\$6,669,806</u>

LINCOLN COUNTY HOSPITAL
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended March 31,

	2017			2016		
		Supplies and other, employee benefits, and			Supplies and other, employee benefits, and	
	<u>Salaries</u>	<u>depreciation</u>	<u>Total</u>	<u>Salaries</u>	<u>depreciation</u>	<u>Total</u>
Routine services						
Adults and pediatrics	\$ 692,651	\$ 462,734	\$ 1,155,385	\$ 661,953	\$ 360,029	\$ 1,021,982
Ancillary services						
Operating room		5,607	5,607		4,302	4,302
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	169,091	101,975	271,066	149,768	94,876	244,644
CT scan and MRI	19,858	64,130	83,988	21,805	44,844	66,649
Laboratory and blood	96,250	189,621	285,871	108,010	173,166	281,176
Physical therapy		226,127	226,127		243,954	243,954
Occupational therapy		128,656	128,656		121,744	121,744
Speech therapy		36,415	36,415		47,518	47,518
Electrocardiology	3,314	405	3,719	3,390		3,390
Medical supplies	22,704	64,767	87,471	23,626	74,592	98,218
Pharmacy		218,523	218,523		282,413	282,413
Sleep Lab		8,850	8,850		15,000	15,000
340(b) drug program		682,577	682,577		689,866	689,866
Emergency room	423,718	258,256	681,974	492,912	186,333	679,245
Clinic and physician	795,287	295,590	1,090,877	719,739	240,301	960,040
Other	2,449		2,449	5,556		5,556
	<u>1,532,671</u>	<u>2,281,499</u>	<u>3,814,170</u>	<u>1,524,806</u>	<u>2,218,909</u>	<u>3,743,715</u>
General services						
Administration and general	113,448	311,220	424,668	116,768	282,704	399,472
Accounting	185,963	269,791	455,754	193,372	305,440	498,812
Plant operations and maintenance	54,219	237,878	292,097	53,858	241,884	295,742
Laundry	28,917	25,659	54,576	27,592	25,456	53,048
Housekeeping	65,361	34,375	99,736	79,085	35,134	114,219
Dietary	183,311	139,511	322,822	177,351	140,157	317,508
Nursing administration	163,410	72,593	236,003	197,067	54,522	251,589
Medical records	95,593	36,787	132,380	101,841	36,270	138,111
Education and activities	21,157	10,296	31,453	2,852	7,627	10,479
Patient care coordination	77,713	16,500	94,213	71,843	17,720	89,563
Employee benefits - other		392,385	392,385		337,940	337,940
Depreciation		681,919	681,919		699,719	699,719
	<u>989,092</u>	<u>2,228,914</u>	<u>3,218,006</u>	<u>1,021,629</u>	<u>2,184,573</u>	<u>3,206,202</u>
	<u>\$ 3,214,414</u>	<u>\$ 4,973,147</u>	<u>\$ 8,187,561</u>	<u>\$ 3,208,388</u>	<u>\$ 4,763,511</u>	<u>\$ 7,971,899</u>